

Message Text

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PAGE 01 KINGST 01047 251804Z

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ACTION SS-30

INFO OCT-01 ISO-00 /031 W

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R 251445Z MAR 74

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC 4299

INFO AMEMBASSY TUNIS

S E C R E T KINGSTON 1047

EXDIS

E.O. 11652: GDS

TAGS: PINT, EMIN, US, JA

SUBJECT: BAUXITE NEGOTIATIONS SITREP #19 :

ANALYSIS OF FIRST WEEK'S NEGOTIATIONS

TUNIS FOR AMBASSADOR GERARD

1. SUMMARY. THE BAUXITE NEGOTIATIONS GOT OFF TO A SHAKY AND UNCERTAIN START THE WEEKEND OF MARCH 16-18. A STATE OF SHOCK IN THE INDUSTRY INDUCED BY THE GOVERNMENT'S "FAR OUT" POSITION PAPER DELIVERED MARCH 15 THREATENED TO END THE NEGOTIATIONS BEFORE THEY BEGAN. HOWEVER, DISCUSSIONS FINALLY GOT UNDER WAY SUNDAY EVENING. AFTER SEVERAL JOINT MEETINGS TOP INDUSTRY REPS RETURNED TO THE U.S. TO HAMMER OUT A JOINT COUNTER-PROPOSAL TO GOVERNMENT'S OPENING POSITION, LEAVING SUBORDINATES BEHIND FOR COMPANY-BY-COMPANY FINANCIAL DISCUSSIONS WHICH OCCUPIED THE REMAINDER OF THE WEEK. WHILE THE ACTION SHIFTED TO THE U.S. THE CONTINUING DISCUSSIONS WERE HELD IN AN ATMOSPHERE OF GROWING CORDIALITY AND GRADUALLY INCREASING UNDERSTANDING OF THE OTHER SIDE'S PROBLEMS. AT WEEK'S END THE GAP BETWEEN GOVERNMENT AND INDUSTRY OPENING POSITIONS HAD CLOSED LITTLE IF ANY, BUT THE ATMOSPHERICS WERE MUCH IMPROVED. THE NEXT MAJOR CRUNCH WILL TAKE PLACE THIS WEEK WHEN INDUSTRY REPS RETURN TO PRESENT JOINT POSITION PAPER, PROBABLY ON WEDNESDAY, MARCH 27. END SUMMARY.

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2. IN CONDUCTING ITS PART IN THE NEGOTIATIONS THE GOVERNMENT IS ON THE PRONGS OF A THREE-WAY DILEMMA. THIS IS BECAUSE ITS CHIEF OBJECTIVES--INCREASED REVENUES, MORE PRODUCTION AND REFINING IN JAMAICA, GREATER PARTICIPATION IN THE INDUSTRY, AND RECLAMATION OF EXCESS RESERVES--ARE TO SOME EXTENT EXCLUSIVE RELATIVE TO ONE ANOTHER. FOR EXAMPLE, A HIGH DEGREE OF SUCCESS ON THE PARTICIPATION AND RECLAMATION ISSUES WOULD PROBABLY LEAD TO SOMETHING LESS THAN THE MAXIMUM POSSIBLE REVENUES BY REDUCTING ROYALTY AND INCOME TAX PAYMENTS. SIMILARLY TOO MUCH SUCCESS IN THE REVENUE AND/OR PARTICIPATION AREAS MAY REDUCE THE POTENTIAL FOR INCREASED PRODUCTION AND REFINING BY PERSUADING THE COMPANIES TO SHIFT TO ALTERNATIVE SOURCES AND TO EXPLORE NEW PROCESSES: AND ALSO BY MAKING IT DIFFICULT FOR THEM TO GET THE FINANCING THEY WOULD NEED FOR INCREASED REFINING CAPACITY IN JAMAICA. THE GOVERNMENT'S PREFERENCE FOR BREAKING OFF REVENUE ISSUES AND DEALING WITH THEM BEFORE TAKING UP PRODUCTION, RESERVES, AND PARTICIPATION REFLECTS AN AWARENESS OF ITS DILEMMA AND AN EFFORT TO DEAL WITH IT. THE REFUSAL OF THE INDUSTRY TO DEAL WITH REVENUES IN ISOLATION INDICATES BOTH AWARENESS OF THE INEVITABLE LINKAGES BETWEEN ISSUES AND THE FACT THAT THIS DILEMMA IS THE CHIEF WEAKNESS OF THE GOVERNMENT'S NEGOTIATING POSITION

3. THE INDUSTRY ALSO FACES A DILEMMA, THOUGH IN ITS CASE THE CHOICES INVOLVE STRATEGY AND TACTICS BUT NOT MATTERS OF PRINCIPLE. IN PRINCIPLE THE COMPANIES ARE AGREED THAT THEY SHOULD SACRIFICE AS LITTLE OF THEIR CURRENT RELATIVELY ADVANTAGEOUS POSITION AS POSSIBLE. DESPITE AGREEMENT IN PRINCIPLE, HOWEVER, THERE IS A GOOD DEAL OF DISAGREEMENT ON THE BEST WAY TO PROCEED. THE PREFERENCES RANGE FROM A STONE WALL STRATEGY FIGHTING FOR EVERY FRACTION OF AN INCH (REYNOLDS) TO A FORTHCOMING APPROACH WILLING TO FACE ALL THE ISSUES AND SEEK THE GOVERNMENT'S COOPERATION IN AN EFFORT TO SECURE A LONG-TERM STABLE RELATIONSHIP (ALCAN). RECOGNIZING THE LINKAGES BETWEEN THE SEVERAL ISSUES, THERE IS A GENERAL TENDENCY TO SEEK TO BUY THE GOVERNMENT OUT OF ITS MORE EXTREME POSITIONS ON PARTICIPATION AND

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RECLAMATION OF RESERVES BY OFFERING THEM A BETTER DEAL ON REVENUES AND PRODUCTION. THIS PROBABLY REPRESENTS THE AVERAGE OF THE INDUSTRY POSITION TO DATE, AND INDUSTRY POSITION PAPER TO BE DELIVERED THIS WEEK IS LIKELY TO REFLECT THIS APPROACH

3. STRATEGY AND TACTICS ASIDE, THE INDUSTRY POSITION WAS WEAKENED DURING THE FIRST WEEK OF DISCUSSIONS BY

LACK OF ADVANCED PREPARATION, CONSULTATION, AND AGREEMENT. WHILE IT WAS THE INDUSTRY THAT INSISTED ON COLLECTIVE MEETINGS THEY WERE OBVIOUSLY UNPREPARED FOR CONDUCTING COLLECTIVE NEGOTIATIONS IN AN ORDERLY WAY, TAKING EVERYONE'S INTEREST INTO ACCOUNT BUT PRESENTING THE SEMBLANCE OF A UNIFIED FRONT. THEIR DISARRAY UNDOUBTEDLY ENCOURAGED THE GOVERNMENT AND CONSTITUTED A POINT OF RELATIVE STRENGTH IN ITS POSITION. DISTURBING THOUGH INTERNAL WRANGLING AND DISAGREEMENT IN THE INDUSTRY HAS BEEN, IT IS WORTH NOTING THAT IT HAS BECOME MORE UNIFIED AS A RESULT OF THESE NEGOTIATIONS THAN AT ANY TIME IN ITS HISTORY. AS THE HEAT INCREASES IN THE KITCHEN INDUSTRY COHESION SEEMS LIKELY TO GROW, WHILE THE FUNDAMENTAL CONTRADICTIONS IN THE GOVERNMENT POSITION MAY LEAD TO GREATER INTERNAL DISSENSION BOTH BETWEEN THE SEVERAL GOVERNMENT NEGOTIATORS AND WITHIN GOVERNMENT CIRCLES GENERALLY. HEWITT

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BAUXITE, PRODUCTION, MEETING PROCEEDINGS, NEGOTIATIONS, MINING INDUSTRY, GOVERNMENT REVENUES, FOREIGN INVESTMENTS, MINERAL RESERVES
Control Number: n/a
Copy: SINGLE
Draft Date: 25 MAR 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974KINGST01047
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740063-1138
From: KINGSTON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740318/aaaaaqtik.tel
Line Count: 132
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 26 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 AUG 2002 by rowelle0>; APPROVED <08 JAN 2003 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BAUXITE NEGOTIATIONS SITREP #19 : ANALYSIS OF FIRST WEEK'S NEGOTIATIONS
TAGS: PINT, EMIN, US, JM
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005